GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:558
ANSWERED ON:25.11.2005
HIGH COST LOANS
Chandrappan Shri C.K.;Reddy Shri Suravaram Sudhakar

Will the Minister of FINANCE be pleased to state:

(a) whether the Union Government has allowed States to pay in advance the high cost negotiated loans from financial institutions and Insurance companies;

(b) if so, the details of the States loans from these institutions, State-wise for the year 2004-05;

(c) whether the financial institutions and Insurance companies have opposed this pre-payment loan plan; and

(d) if so, the details and the Government's reaction thereto?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a): Yes, Sir. States have been permitted to pre-pay their outstanding high cost loans by raising fresh low interest bearing loans from Banks/FIs and also by allocating them additional open market borrowings.

(b): A statement to this effect is annexed.

(c)&(d): Though no financial institution has opposed prepayment of loans, they have their own policy on prepayments, keeping in view the financial health and implication of prepayments. Most of the financial institutions charge a premium on prepayments while few of them have a policy not to extend further loan to a State in the year of prepayment.

Annexure
Statement indicating the amounts permitted to be raised through Market Borrowings and consent given to States under Article 293(3) of the Constitution of India for pre-payment of their high cost Institutional loans during 2004-05.

(Rs. in crore)

Sl. No.	Name of State	Additional Market Borrowings	Article 293(3) permission for funds from Banks/Financial Institutions
1.	Gujarat	390.21	
2.	Kerala	327.19	
3.	Madhya Pradesh	337.25	
4.	Maharashtra	941.86	
5.	Meghalaya	49.21	
6.	Mizoram	46.82	
7	Nagaland	8.93	
8.	Orissa	37.47	
9.	Rajasthan	893.90	
10.	Sikkim	19.48	

11. Uttar Pradesh 964.97

The State of Uttar Pradesh was permitted to raise Market Borrowings of Rs. 964.97 crores for pre-payment of RIDF loans to NABARD. The amount could not be raised by RBI due to poor response.